

INDITEX

INTERIM THREE MONTHS 2024

CONFERENCE CALL TRANSCRIPT
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Important notice: Although we try to accurately reflect the speech delivered, the actual speech that was delivered may deviate from this transcript.

INDITEX PARTICIPANTS

Óscar García Maceiras - CEO

Ignacio Fernández - CFO

Marcos López - Capital Markets Director

Conference Call Participants

Richard Chamberlain - RBC – Analyst

Geoff Lowery - Redburn - Analyst

Sreedhar Mahamkali - UBS - Analyst

James Grzanic - Jefferies - Analyst

Warwick Okines - Exane BNP Paribas – Analyst

Nicolas Champ - Barclays - Analyst

Georgina Johanan - JP Morgan - Analyst

Introduction: Marcos López - Capital Markets Director

[Image]

Buenos días a todos, good morning to everybody. A warm welcome to all of those attending the presentation of Inditex's Results for the Interim Three Months 2024. I am Marcos López, Capital Markets Director.

The presentation will be chaired by Inditex's CEO Oscar García Maceiras. Also with us is our CFO Ignacio Fernández.

The presentation will be followed by a Q&A session starting with the questions received on the telephone and then those received through the webcast platform. Before we start, we will take the disclaimer as read.

Please Oscar.

Slide 4: CEO

Slide 5: To the next level

[Image]

Slide 6: 1Q2024: Strong growth and execution continues

Good morning and welcome to our results presentation. It is our pleasure to join you today.

In the first three months of twenty twenty-four (2024) Inditex has continued its very robust operating performance driven very much by the creativity of our teams and the strong execution of our fully integrated business model.

This performance relies on the four key strategic pillars you are all familiar with: Our unique fashion proposition, an optimised customer experience, our focus on sustainability and the talent and commitment of our people. These factors have propelled our competitive differentiation.

Our Spring/Summer collections have been very well received by our customers.

We have had a very satisfactory sales growth of seven-point one (7.1%) percent. Sales in constant currency increased by ten-point six percent (10.6%).

The execution of the business model has also been very robust, with a healthy gross margin and disciplined cost management.

On the bottom line, net income increased ten-point eight percent (10.8%) to one point three (1.3) billion euros.

This performance has continued going into the second quarter. Store and online sales in constant currency between the first of May (1st of May) and the third of June (3 June) grew twelve percent (+12%).

Slide 7: To the next level

Our diversified presence in two hundred and fourteen (214) markets with low market penetration allows us to enjoy significant global growth opportunities.

We have complete confidence in our ability to grow this business, mainly because the unique model we operate continues to drive an ever increasing level of differentiation.

I'm going to hand you over to Ignacio now to go into the headline numbers.

Slide 8: CFO

Slide 9: Financial Summary

Thank you, Oscar.

Slide 10: 1Q2024: Very strong execution

As you have seen in our release, Inditex executed strongly in the interim three months of 2024.

Sales have progressed well at plus 7.1%. We have managed the supply chain actively, and this has driven a very healthy gross margin. Operating expenses have of course been well managed resulting in operating leverage.

As a result, EBITDA grew 8% to 2.4 billion euros.

In any case, we have also seen very strong progress in the net income line, with an increase of 10.8% to 1.3 billion euros versus 1.2 billion euros in the 1Q2023.

Slide 11: Sales

Let me reiterate that sales have progressed very nicely at plus 7.1% reaching 8.2 billion euros. That's 10.6% in constant currency.

Based on current exchange rates we expect a -2.0% currency impact on sales for the full year 2024.

Slide 12: Gross profit

In the first quarter of 2024, gross profit increased 7.3% to reach 4.9 billion euros and clearly illustrates a healthy execution of the business model. The gross margin reached 60.6%.

Based on current information, we expect a stable gross margin of +/- 50 basis points this financial year.

Slide 13: Operating efficiencies

There has been very tight control of operating expenses across all departments and business areas.

Operating expenses increased below sales growth over the first quarter of 2024. Including all lease charges, operating expenses grew 110 basis points below sales growth.

Slide 14: Working capital

Over the first quarter of the year, we experienced a robust operating performance. Due to these factors, Inditex's inventory as of the 30th of April was 3% lower.

As a side note, the end of period inventory is considered to be of high quality.

And now over to you Marcos.

Slide 15: Capital Markets Director

Slide 16: Concepts

Thank you.

Slide 17: Concepts

On the back of the comments made by Ignacio, I would like to reiterate that the performance over the first quarter 2024 has been remarkable. We are very content with the execution over the period.

We have continued with the expansion and have opened stores in 28 different markets and have progressed with optimisation activities.

Store and Online sales continue to be robust. The performance has been very strong at all levels.

A key priority remains to continue increasing our differentiation. In the strategy section we will cover an extensive number of initiatives carried out in the period.

Back to you Oscar.

Slide 18: CEO

Thank you Marcos.

Slide 19: To the next level

We keep on strengthening these strategic pillars of our fully integrated business model.

Slide 20-29: Our fashion proposition: Creativity, innovation, design and quality (VIDEO 1)

Firstly, our priority remains to continually increase the appeal of our fashion proposition. Creativity, innovation, design and quality are the defining features of our collections and a key focus across all our teams.

Our meticulous design process impacts every tiny detail of our garments and collections, while striving to provide quality fashion to customers around the world.

Slide 30-32: New Store Designs. Zara, Zara Home, Bershka. Slide 33-41: Zara Stores (Paris Rivoli, Athens Piraeus Tower, Zara Chicago Skokie, Zara Man Sevilla), Pull&Bear Rotterdam, Massimo Dutti Cannes, Bershka Madero, Stradivarius Gran Vía, Oysho London Stratford (VIDEO 2)

The focus on an ever more enhanced customer experience comes as a result of the continuous process of upgrading stores with strong architectural features and with highly curated internal spaces.

Thanks to our unique integrated store and online model, our teams have been able to take advantage of the remarkable growth opportunities we see across all channels, concepts and markets.

Underpinning this growth are new openings, enlargements and refurbishments of stores in the best locations, expanding our concepts to new cities and new territories and the launch of new services that enhance the customers shopping experience.

Slide 42: Continued roll-out of new self check-out and security technology

The full implementation of the new security technology at Zara by the end of twenty-twenty four (2024) is going to plan.

Slide 43: Outlook 2024

We operate in two hundred and fourteen (214) markets with low share in what continues to be a highly fragmented sector and we see strong growth opportunities.

To meet the current strong demand, which builds on the significant growth of the business in twenty twenty-two to twenty twenty-three (2022-23), we are undertaking a number of initiatives. We are planning investments that will scale our capabilities, obtain efficiencies and increase our competitive differentiation to the next level.

The growth of annual gross space in the period twenty twenty-four to twenty twenty-six (2024-2026) is expected to be around five percent (5%). Over this same time period, Inditex expects space contribution to sales to be positive, in conjunction with a strong evolution of online sales.

For twenty twenty-four (2024), we estimate ordinary capital expenditure of approximately one point eight billion euros (€1.8 billion). This investment will be principally directed at optimisation of commercial space, its technological integration and the improvement of our online platforms.

As you already know and in view of the strong future growth opportunities, Inditex has designed a logistics expansion plan for twenty twenty-four and twenty twenty-five (2024 and 2025).

This two-year extraordinary investment programme focused on the expansion of the business allocates nine hundred (900) million euros per year to increase logistics capacities in each of the twenty twenty-four and twenty twenty-five (2024 and 2025) financial years.

Slide 44: 28% dividend increase

As already announced for the financial year twenty twenty-three (FY2023), the Board of Directors will propose at the Annual General Meeting a dividend increase of twenty-eight percent (28%) to one point five-four euros (€1.54) per share.

The dividend will be made up of two equal payments: On the second of May twenty twenty-four (2nd May 2024) Inditex made a payment of zero point seven seven euros (€0.77) per share. The remainder, zero point seven seven euros (€0.77) per share will be payable on the fourth of November twenty twenty-four (4th November 2024).

Slide 45: Strong start to 2Q2024

I would like to finish with a comment on our current performance. Spring/Summer collections continue to be very well received by our customers.

Store and online sales in constant currency increased twelve percent (12%) between the first (1st) of May and the third (3rd) of June twenty twenty-four (2024) versus the same period in twenty twenty-three (2023).

Slide 46: 1Q2024 Results

Thank you all for attending this results presentation. That concludes our presentation for today. We would be happy to answer any questions you may have.

QUESTIONS & ANSWERS

James O'Shaughnessy - IR

The telephone Q&A session starts now. If you would like to ask a question, please press *5 on your telephone keypad. If you wish to withdraw your question, please press *5 again.

We request that you limit yourselves to only one question per turn so we can maximise the number of participants in the session. If you have further queries, you may press*5 again after the next person's question has been addressed. Please ensure your phone is not on mute.

The first question goes to Richard Chamberlain from RBC. Go ahead, Richard.

Richard Chamberlain - RBC- Analyst

Thank you, James. Morning, everybody. I wondered if I could ask a question on the net space contribution to Q1 sales. Maybe you could comment on that, or give us the number and is that in line with your expectations, and how is that panning out, sort of store openings versus further store absorptions? Thank you.

Marcos López - Capital Markets Director

Thank you for your question, Richard. You know, our target for the next three years is to grow space by 5% gross, and obviously, optimisation activities, as we have described in the presentation, are ongoing -- enlargements, refurbishments and relocations. So this remains a key feature, so you should see that a net contribution very similar to our long-term target. We have mentioned that for the next three years, we expect positive space contribution, and we are very satisfied with the way we are executing this.

James O'Shaughnessy - IR

The next question goes to Geoff Lowery, from Redburn. Go ahead, Geoff.

Geoff Lowery – Redburn - Analyst

Yea, good morning, everyone. Could you talk a little more about inventory, please? I appreciate that the balance sheet inventory is a snapshot in time and doesn't indicate commitment, but you've done an amazing job of managing inventory growth below sales growth and I wondered whether that journey was done now or whether your logistics investments and the operation of the model could yield even bigger benefits? Thank you.

Marcos López - Capital Markets Director

Thank you very much, Geoff. As you have mentioned, inventory at the end of the period is 3% lower than in the same period last year. In the presentation, we have mentioned that we have had a very strong execution. Over last year, there was a normalisation in the supply chain conditions, and despite this fact, this year there have been some issues as you know with the Red Sea, we continue

managing the inventory on the supply chain in a very, very efficient way. Execution has been very, very strong. This is reflected not only in inventories, also in the gross margin, in the sales performance over the first quarter and the trading update.

So, I would say that execution is one of the key focal points of our business. And clearly, we have a very strong advantage there, our business model and the fact that proximity sourcing is a key element, and this is what I would like to add on this.

James O'Shaughnessy - IR

The next question goes to Sreedhar Mahamkali, from UBS. Go ahead, Sreedhar.

Sreedhar Mahamkali - UBS - Analyst

Guys good morning, thank you James. Thanks for taking my question. Really just want to check if you're able to call out anything either in Q1 or current trading in terms of regional colour -- U.S., Europe, online stores, anything you can help will be super helpful. Thank you.

Marcos López - Capital Markets Director

Not really. As you have seen, execution has been very, very strong, 10.6% sales growth over the first quarter. Our trading update remains very strong at 12%. Obviously, we have a more demanding comp for the rest of the first half, but we continue executing according to what we say.

And in quarters we prefer not to make any regional comments, but I would say a very strong execution across the board.

James O'Shaughnessy - IR

The next question comes from James Grzinic from Jefferies. Go ahead, James.

James Grzinic - Jefferies - Analyst

Good morning, everybody. Thank you, James. Just a quick one. Would you be able to add more colour on how livestreaming is helping in China? I've been reading about plans for you to extend livestreaming into western markets. Any more colour you could give on that front will be very helpful. Thank you.

Óscar García Maceiras - CEO

Thanks for the question. Well, we are very happy with the performance of live streaming in China. We started that service before the year end, and we are working to expand that service through our own platforms to different markets, including the U.S. and the UK. And the expectation is to start with this new service in the coming weeks.

James O'Shaughnessy - IR

The next question comes from Warwick Okines from Exane. Go ahead, Warrick.

Warwick Okines - Exane - Analyst

Hi, Morning all. Thanks for taking my question. So, I'm just wondering whether or not you could comment on whether online is outperforming stores at the moment, if the mix is changing during the quarter and whether you expect that to happen during the year? Thank you.

Óscar García Maceiras - CEO

Thank you for the question. Well, the company's performing very well in both channels. Bear in mind that we have full integrated business model. It is not possible to understand the strength of the evolution of our physical store sales without taking into consideration the potential in terms of strength coming from the online platforms, and at the same time, it's not possible to explain the strength of our online sales without taking into consideration the operational support coming from the physical store. Both channels are performing very well, a very positive trend, and we are very happy with the execution of the fully integrated model. Thank you.

James O'Shaughnessy - IR

The next question comes from Nicolas Champ from Barclays. Go ahead, Nicolas.

Nicolas Champ - Barclays - Analyst

Good morning. Thank you for taking my question. There is high inflation in some countries, such as Argentina. Would it be possible to provide a sales growth at constant currency, stripping out this market where inflation is particularly high? And a follow-up question also regarding the high inflation, cost inflation in Turkey. How has it impacted your sourcing strategy? I mean, did you change? Did you reduce your sourcing in Turkey, because of the significant inflation and increasing in operating cost for instance in this country? Thank you.

Marcos López - Capital Markets Director

What I can say is that we have continued to execute according to our business model, and we have not made any short-term changes to the model based on the inflation we have seen. Our growth is mainly volume driven. And clearly, we keep on executing according to our expectations, so I don't think I can highlight any market or any part of the operations that are massively impacted by that factor.

James O'Shaughnessy - IR

The next question comes from Georgina Johanan from JP Morgan. Go ahead, Georgina.

Georgina Johanan – JP Morgan - Analyst

Just a follow-up to the previous question. Where you talk about growth being mainly volume driven, has there been any change at all in the pricing or ASP contribution and into the new year, versus last year, please? Are you using any of the acceleration that we're seeing in current trading driven by higher prices in the markets?

Marcos López - Capital Markets Director

Seems very stable. Nothing significant there, Georgina. Nothing significant.

Georgina Johanan – JP Morgan - Analyst

Great, thank you.

James O'Shaughnessy - IR

That concludes the questions. We'll move on to webcast now. We've had a couple of questions, the first of which is: Can you update us on the 1.8 billion Euro logistics investment plan, please?

Óscar García Maceiras - CEO

Thanks for the question. To put some context and just to remind you, we have had very strong growth these last two years as we said during the presentation, and we keep on seeing growth opportunities going forward. And for our business model, it is key to keep on enhancing the experience of our customers. That relates, of course, to having the best stores and the best online platforms. But at the same time, the best customer experience also requires the capabilities needed to provide them what they are looking for, where, when, or how they want. We are executing within this context, our logistics expansion plan for '24 and '25, these 900 million Euros each of these two years. And the different projects of the plan are on track. And as announced in March, most of them will be gradually operational by the end of 2025.

James O'Shaughnessy - IR

The next question on the webcast platform is to Spain. Can you provide any comment on your growth in Spain, your largest market? Please.

Óscar García Maceiras - CEO

Well, we are very happy with our performance in Spain. As a reminder, in 2023, sales in Spain grew 13%, the fastest growing region for the group, alongside Europe, ex-Spain. We remain active with our store optimization program. One example of this has been Sevilla, where in 2023, we closed a few smaller stores at the city centre to open a larger store at plaza del Duque. Our new store allows us to better showcase Zara full collection, but also has improved customer experience with self-checkouts, automated online pickup and return points, *et cetera, et cetera*.

We continue to find opportunities for our profitable growth in Spain with all our concepts.

James O'Shaughnessy - IR

That concludes the webcast questions for today. Thank you.

Óscar García Maceiras - CEO

A thank you to all of those participating the presentation today. For any additional questions you may have, please get in touch with our Capital Markets department. And we'll welcome you back in September for the first half twenty 2024 results.